

NCA
VOC FOR PGM/FN
BACKGROUNDER NO. 5-6258
DAVID WILLIAMS/LONDON

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BRITISH ECONOMY

ANNCR:

BRITAIN'S LABOR GOVERNMENT HAS TAKEN SOME STRONG MEASURES TO CONTROL INFLATION. VOA'S LONDON CORRESPONDENT, DAVID WILLIAMS, HAS THIS BACKGROUND REPORT.

VOICE:

THE BRITISH GOVERNMENT LAST WEEK ANNOUNCED AN INCREASE IN THE MINIMUM LENDING RATE OF THE BANK OF ENGLAND FROM TEN TO TWELVE AND A HALF PERCENT. THIS BRINGS THE RATE TO THE HIGHEST IT HAS BEEN SINCE THE COUNTRY'S FINANCIAL CRISIS OF NINETEEN SEVENTY FIVE-SEVENTY SIX. THE CHANCELLOR OF THE EXCHEQUER, DENNIS HEALEY, SAID THE MOVE WAS TAKEN TO KEEP PACE WITH THE RISE IN THE LENDING RATE BY THE AMERICAN FEDERAL RESERVE BANK, UNCERTAINTIES IN FOREIGN EXCHANGE MARKETS, AND INCREASING WAGE DEMANDS IN BRITAIN. (OPT) THE BRITISH NEWSPAPER, THE FINANCIAL TIMES, DUBIOUSLY DESCRIBES MISTER HEALEY'S EXPLANATION FOR THE MOVE AS SOMETHING LIKE CALLING TOLSTOY'S "WAR AND PEACE" A NOVEL ABOUT EVERYDAY LIFE IN MOSCOW DURING THE EARLY NINETEENTH CENTURY -- WHICH, WHILE TRUE, IS CERTAINLY A GROSSLY INADEQUATE DESCRIPTION. (END OPT)

FINANCIAL CIRCLES IN LONDON BELIEVE THAT THE INCREASED LENDING RATE IS PRIMARILY A DOMESTIC MATTER DESIGNED TO CURB INFLATION AND WARN LABOR UNIONS AND MANAGEMENT OF ECONOMIC TROUBLES IF THEY AGREE TO WAGE INCREASES WELL ABOVE THE GOVERNMENT'S FIVE PERCENT GUIDELINES. AT THE WEEKEND, MISTER HEALEY WARNED THAT THE GOVERNMENT IS PREPARED TO DO EVEN MORE IF THERE IS A WAGE EXPLOSION. THIS WOULD INCLUDE A SIZEABLE TAX

RISE AND A CUT IN PUBLIC EXPENDITURES. THE GOVERNMENT HAS BEEN HAVING SERIOUS DIFFICULTIES IN GETTING MAJOR UNIONS TO ACCEPT THE FIVE PERCENT GUIDELINES -- THE FOURTH STEP IN EFFORTS TO KEEP INFLATION IN SINGLE FIGURES. A FEW YEARS AGO INFLATION STOOD AT ABOUT TWENTY FIVE PERCENT AND BRITAIN WAS FORCED TO GO TO THE INTERNATIONAL MONETARY FUND TO HELP BAIL THE COUNTRY OUT OF A FINANCIAL CRISIS CAUSED BY HUGE WAGE DEMANDS AND SPIRALING INFLATION. FOR A WHILE THE UNIONS AND GOVERNMENT PULLED TOGETHER AND INFLATION HAS BEEN BROUGHT DOWN TO SEVEN TO EIGHT PERCENT. BUT UNIONS ARE NOW DEMANDING HUGE INCREASES AGAIN. FORD MOTOR WORKERS ARE OUT ON STRIKE FOR RAISES OF TWENTY SIX PERCENT. THE MINERS ARE DEMANDING FORTY PERCENT.

MISTER HEALEY'S INCREASE OF THE MINIMUM LENDING RATE BROUGHT AN ALMOST IMMEDIATE INCREASE BY BUILDING SOCIETIES OF HOME LOAN MORTGAGE RATES TO ELEVEN AND THREE QUARTERS PERCENT -- A JUMP OF TWO POINTS. UNLIKE SOME COUNTRIES SUCH AS THE UNITED STATES WITH FIXED RATES, MOST HOME LOAN INTEREST RATES IN BRITAIN OPERATE ON A SLIDING SCALE. SO THOSE WITH LOANS OF TWENTY THOUSAND DOLLARS WILL BE PAYING SEVENTEEN DOLLARS A MONTH MORE -- THOSE WITH FORTY THOUSAND DOLLAR MORTGAGES WILL LOSE ABOUT THIRTY FIVE DOLLARS A MONTH.

THE GOVERNMENT MOVE WAS CLEARLY DESIGNED TO TIGHTEN THE SUPPLY OF MONEY AND MAKE IT MORE DIFFICULT TO BUY LUXURY ITEMS WHILE INCREASING THE INCENTIVE TO SAVE -- BANK ACCOUNT INTEREST RATES HAVE ALSO RISEN. MISTER HEALEY HAS WARNED THAT WITH A TIGHTENED MONEY SUPPLY, WORKERS WHO DEMAND EXORBITANT INCREASES COULD PRICE THEMSELVES OUT OF JOBS.

OBSERVERS SAY THE LABOR GOVERNMENT IS TAKING A POLITICAL GAMBLE BY ITS MOVE BECAUSE ELECTIONS MUST TAKE PLACE WITHIN ELEVEN MONTHS. BUT WITH THE GOVERNMENT DEFEATING A NO-CONFIDENCE VOTE LAST WEEK PRIME MINISTER CALLAGHAN CAN PICK THE TIME OF THE VOTE AND LOWER THE INTEREST RATES AGAIN WELL AHEAD OF THE GENERAL ELECTIONS.

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